Bodal Chemicals Ltd.
COLOURS. INTEGRATION. INNOVATION.

By online submission

Sec/23-24/99
Date: 01-01-2024

To,
The General Manager,
Department of Corporate Services
BSE Ltd.
1st Floor, New Trading Ring,
Rotunda Building, P. J Tower,
Dalal Street, Fort
Mumbai-400 001
BSE Code: 524370

To,
The General Manager,
National Stock Exchange of India Ltd.
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (E), Mumbai-400 051.
NSE Code: BODALCHEM

Dear Sir /Madam,

Sub: Revised Intimation of Credit Rating
Ref: Sec/23-24/98 dated 30-12-2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that India Ratings & Research has revised the Company's Credit Rating at "IND BBB+/Negative". The instrument-wise rating actions are as follows:

Instrument Type	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	INR 6,390	IND BBB+/Negative	Downgraded
Fund-based/non-fund based working capital limit	INR 5,560	IND BBB+/Negative/IND A2	Downgraded
Non-fund-based working capital limits	INR 500	IND A2	Downgraded
Commercial paper (CP)	INR 500	IND A2	Downgraded

With reference to above, corporate announcement was submitted by the company vide letter No. Sec/23-24/98 dated 30-12-2023, under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Exchange has observed that the additional required details under SEBI Circular no. CIR/CFD/CMD/4/2015 dated September 09, 2015 is not mentioned by the Company in above referred Announcement filed by the Company dated 30-12-2023 and asking to submit a fresh corporate Announcement along with required additional information as per SEBI Circular.

With regards to the above observation, we herewith enclosed the Credit ratings along with all Details of the Company published by India Ratings & Research as reason for downward revision in Credit rating.

Ashutosh Bharatkumar Bhatt
Digitally signed by Ashutosh Bharatkumar Bhatt
Date: 2024.01.01 13:16:45 +05'30'

HEAD OFFICE:
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Tel: +91 79 2583 5437
2583 4223, 25831684
Fax: +91 2583 5245, 25836052
E-mail: bodal@bodal.com
PLANT OFFICE:
UNIT - 2
Plot No. 123-124, Phase-I, G.I.D.C.
Vatva, Ahmedabad-382445.
Tel: 9909950855 / 856 / 857 / 858

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Kindly find the enclosed document.

This information will be hosted on the Company's website, at www.bodal.com

Kindly take the same on record please.

Thanking you,

Yours faithfully,
For, Bodal Chemicals Ltd.

Ashutosh Bharatkumar Bhatt

Digitally signed by Ashutosh Bharatkumar Bhatt
Date: 2024.01.01 13:16:17 +05'30'

Ashutosh B Bhatt
Company Secretary &
Compliance Officer

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www.bodal.com
CIN No. : L24110GJ1986PLC009003

India Ratings Downgrades Bodal Chemicals' Bank Loans to 'IND BBB+'/Negative and its CP to 'IND A2'

Dec 29, 2023 | Dyes And Pigments

India Ratings and Research (Ind-Ra) has downgraded Bodal Chemicals Limited's (BCL) debt instrument ratings as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	FY29	INR6,390	IND BBB+/Negative	Downgraded
Fund-based/non-fund-based working capital limit	-	-	-	INR5,560	IND BBB+/Negative/IND A2	Downgraded
Non-fund-based working capital limits	-	-	-	INR500	IND A2	Downgraded
Commercial paper (CP)*	-	-	0-365 days	INR500	IND A2	Downgraded

* Carved out of existing working capital facilities
The CP proceeds will be used for meeting working capital requirements/refinancing of debt/bridge finance/capex.

ANALYTICAL APPROACH Ind-Ra continues to take a consolidated view of BCL and its subsidiaries, Bodal Chemicals Trading Pvt. Ltd. (100%), Bodal Chemicals Trading (Shijiazhuang) Co (100%). Ltd., Sen-er Boya Kimya Tekstil Sanayi Ve Ticaret Ltd. (80%), Bodal Bangla Ltd (100%) as the companies have strong operational inter-linkages and common founders, and operate in the same line of business.

The downgrade and Negative Outlook reflect the sustained deterioration in BCL's performance during FY23-1HFY24, and the likelihood of the consolidated performance remaining weaker than expected over the near term, and the resultant deterioration in the liquidity position.

Key Rating Drivers

Weaker-than-expected EBITDA due to Subdued Demand: After a sharp fall to INR1,333 million in FY23 (FY22: INR2,196 million), BCL's consolidated operating EBITDA fell further by 44% yoy to INR500 million in 1HFY24 owing to weak demand and realisations, causing the EBITDA margin to fall to 6.9% (1HFY23: 9.5%, FY23: 8.5%; FY22:

10.7%), lower than previously expected. The consolidated revenue fell to INR15,743 million in FY23 (FY22: INR20,506 million; FY21: INR12,264 million), with revenue declining across segments, including dyestuff, basic chemicals and chlor alkali, as the end-user segments, including textiles, and leather, faced a demand slowdown. Weak demand in overseas markets resulting in high channel inventories led to 36%yoy fall in exports while domestic revenue fell 18%yoy in 1HFY24. With global demand remaining weak, Ind-Ra believes that a meaningful recovery in BCL's performance is likely only gradually in FY25 due to which profitability over the next few quarters is likely to be lower than earlier expectations. However, a likely stabilisation of prices in 2024, softer in input costs and the commencement of the benzene downstream plant would lead to some recovery in margins in FY25, though it could remain lower than historical averages.

Deleveraging to be Delayed Further: BCL's net leverage (net debt/EBITDA) deteriorated sharply to 5.6x in FY23 (FY22: 3x, FY20: 1.8x) owing to the fall in EBITDA amid the ongoing capex, and weakened further to 8.3x in 1HFY24. With continued weak EBITDA, BCL's net leverage is likely to remain at elevated levels in FY24, higher than Ind-Ra's earlier expectations. While the completion of capex and a gradual recovery in the existing business would lead to some deleveraging in FY25, Ind-Ra believes that BCL's net leverage is likely to remain higher than the agency's negative rating sensitivity of 3.25x in FY25 too. BCL's ongoing greenfield project in Sakhya (Gujarat) to diversify into specialty benzene downstream products, is now likely to achieve commercial production by 4QFY24 (earlier expectation of 3QFY24) with trials runs starting in December 2023. The project was originally scheduled to begin operations by 4QFY23 at a capacity of 79,000 metric tonnes per annum (mtpa), which was reduced to 63,000mtpa due to unfavourable market conditions, particularly in the western markets. BCL had already incurred capex of around INR4600 million until 7MFYE24 (including INR1900 million in 7MFY24) and further expenditure of INR800 million is to be incurred by FYE24, taking the total project cost to INR5400 million, with some overruns from the original estimates, partially on account of technological changes. The company had incurred capex of INR600 million on the sulphuric acid project till FYE23, and it remains on hold due to the market conditions. In addition, the company had also undertaken capex of INR3400 million in FY23 for increasing its caustic soda capacity to 99,000mtpa (from 82,500mtpa). While the project was commenced in a timely manner, the weak demand environment has led to a delay the deleveraging process. After falling to 3.25x in FY23 (FY22: 7.4x), BCL's consolidated interest coverage (EBITDA/gross interest) fell further to 1.7x in 1HFY24 and is likely to remain at similar levels in FY24. Notwithstanding a likely recovery in FY25, the interest coverage would remain lower than the historical average.

Liquidity Indicator - Stretched: The lower EBITDA and a higher use of internal accruals towards the ongoing capex has led to a reduction in the liquidity buffers. Of the total capex of INR2700 million to be incurred towards the benzene project in FY24, the management now expects to fund INR1700 million through tied-up bank loans compared to earlier expectation of INR2000 million, leading to higher utilisation of internal accruals towards the capex. However, the capex of INR800 million over November-December 2023 will mostly be funded through the tied-up debt. BCL's average use of fund-based bank limits was about 80% during the 12 months ended October 2023 and the company had unutilised fund-based limits of about INR600 million at end-October 2023 (end-May 2023: INR800 million), backed by sufficient drawing power. BCL had very minimal cash and cash equivalents of INR168 million at FYE23 (FYE22: INR93 million) against scheduled repayments of INR570 million in FY24 and INR 900 million in FY25. The availability of sufficient liquidity buffer remains a key rating monitorable, given the subdued performance. As of November 2023, BCL had usable sanctioned fund-based working capital limits of INR5400 million, around 75% higher than the existing drawing power, providing a cushion in case of an increase in working capital requirements with the likely recovery in FY25. The company has applied to the lenders for a revision in the repayment schedule in line with the revision in the commercial operations date of the project. Furthermore, the management is in the process of monetising some non-core assets to shore up the liquidity; in addition, it is likely to receive government incentive towards the SCC project and it might also raise debt to shore-up the liquidity. Ind-Ra will continue to monitor these events.

The company's consolidated cash flow from operations turned positive at INR2,508 million in FY23 (FY22: negative INR311 million) due to a reduction in working capital requirements, and Ind-Ra expects the cash flow from operations to remain positive in FY24. The free cash flow, however, remained negative at INR974 million in FY23 (FY22: negative INR2,118 million) due to the large capex and would continue to be negative in FY24 due to the ongoing capex. The net working capital cycle remained elongated but improved to 168 days in FY23, (FY22: 195; FY21: 209) owing to a decline in inventory days (FY23: 118 days; FY22: 141 days; FY21: 141 days) and receivable days (97 days; 105 days; 139 days). The working capital cycle is likely to improve gradually with recovery in demand and a short working capital cycle in the upcoming benzene downstream business.

Strong Market Position; Integrated Player with Long Track Record: BCL is one of India's most integrated dyestuff companies and the largest manufacturer of dye intermediates. It offers a wide range of dyestuff products to a diverse customer base and has longstanding customer relationships. According to the management, the company has a market share of 3% and 13% in the global and domestic dyestuff markets, respectively, and 6% and 20% in the global and domestic dye intermediates markets, respectively. BCL benefits from strong backward integration, with almost 48% of the basic chemicals and 43% of the dye intermediates produced by the company being used in-house, providing it with cost advantages, operational synergies, and increased raw material security. The revenue share of dyestuff rose to 35% in FY23 (FY22: 33%), driven by BCL's increased focus on augmenting business-to-consumer sales. Dye intermediates contributed 26% to the FY23 revenue (FY22: 38%), while the balance was contributed by basic chemicals other chemical products. Exports accounted for 31% of the total sales in FY23 (FY21- FY22: 33%; FY20: 41%).

Business Profile to Improve Post Capex Completion: Upon commercialisation of the capex that is underway, the diversification of BCL's product portfolio into downstream products is likely to reduce its reliance on the volatile dyestuff segment, enhance cost efficiency and support raw material integration, thereby improving the margins. The expansion will also enable BCL to expand its existing end-user base to the growing pharmaceutical and agrochemicals sectors. At peak utilisation, the management expects the specialty benzene downstream derivatives project to generate a revenue of around INR3,200 million, with an EBITDA margin of 15%-18%. Furthermore, with the upgradation and expansion, the caustic unit at Siel Chemical Complex (SCC) has bolstered BCL's market position in chlor-alkali products, given SCC's leading market position in north India and its strong client base. Besides, the plant has a strong internal and adjoining consumption of chlorine.

Standalone Profile: BCL's standalone performance also displayed weakness, with revenue declining to INR6.5 billion in 1HFY24 (1HFY23: INR8600 million), the EBITDA falling to INR500 million (INR700 million) and the interest coverage to 1.9x (5.4x). In FY23, BCL's standalone revenue and EBITDA had declined to INR15,551 million (FY22: INR20,108 million, FY21: INR11,297 million) and INR1,211 million (INR2,241 million; INR829 million), respectively; its net leverage had increased to 5.6x (2.8 x; 5.2x) and the interest coverage had decreased to 4.6x (10.79x; 9.0x).

Cyclicality and Volatile Earnings: Although increased environmental compliance costs, rising manpower wages and reduced state support in China have improved the cost competitiveness of Indian manufacturers, the dyestuff industry is highly fragmented, competitive and cyclical. The prices of most inputs used by BCL, such as naphthalene, sulphur, caustic soda, aniline, and ethylene oxide, are volatile and some are linked to crude oil prices, resulting in quarterly volatility in margins. Furthermore, though the momentum of supply chain shifting away from China could become accelerated, any increase in Chinese production remains a key risk, given its available and underutilised capacity. Also, the textile and paper sectors account for 50%-60% of its revenue, making it sensitive to industry cycles.

Susceptible to Forex Fluctuations, Environmental Issues: BCL is exposed to forex risks, and while the company has been hedging its forex exposure, it might not be always sufficient to protect margins in case of significant currency fluctuations. Furthermore, the dyestuff industry is highly regulated, given the major safety, health and environmental risks associated with it. Environmental laws have become increasingly stringent, causing companies to incur significant capital and operating costs to comply with the evolving norms. BCL's pollution control expenses have accounted for 1%-2% of the sales in the recent past. The company's continued compliance with pollution control and environmental laws remains key to its sustainable performance.

Rating Sensitivities

Positive: Successful completion and ramp-up of the ongoing capex along with a significant and sustained improvement in profitability and liquidity, leading to the consolidated net leverage reducing below 4.5x and EBITDA interest coverage exceeding 2.5x, all on a sustained basis, could lead to the Outlook being revised back to Stable.

Negative: Lower-than-expected profitability and/or any further delay in the commissioning or cost overruns in the ongoing capex, leading to reduced visibility of the consolidated net leverage falling below 4.5x and EBITDA interest coverage decreasing below 2.5x could lead to a negative rating action. Additionally, any deterioration in the liquidity position on a sustained basis could lead to a negative rating action

ESG Issues

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on BCL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

BCL is a leading producer of dye intermediates and dyestuffs with a presence in reactive, acid, and direct dyes. Its manufacturing facilities are spread across 10 locations in India, with installed capacities of 33,000mtpa of dyestuff intermediates; 45,000mtpa of dyestuff (including liquid dyes), 226,000mtpa of basic chemicals and 82,500mtpa of caustic soda. It commenced operations in 1989 and was listed in 2006.

FINANCIAL SUMMARY - CONSOLIDATED

Particulars	FY23	FY22
Revenue (INR million)	15,742	20,506
EBITDA (INR million)	1,333	2196
EBITDA margin (%)	8.4	10.7
Total debt (INR million)	6,975	6755
Gross interest coverage (x)	3.25	7.44
Net leverage (x)	5.57	3.03
Source: BCL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Out			
				22 September 2023	26 June 2023	28 July 2022	29 July 2021

Issuer rating	-	-	-	WD	IND A/Negative	IND A+/Negative	IND A+/Negative
CP	Short-term	INR500	IND A2	-	IND A1	IND A1+	IND A1+
Fund/Non-fund based working capital limit	Long-term/Short-term	INR5,560	IND BBB+/Negative/ IND A2	-	IND A/Negative / IND A1	IND A+/Negative / IND A1+	IND A+/Negative / IND A1+
Non-fund based working capital limit	Short-term	INR500	IND A2	-	IND A1	IND A1+	IND A1+
Term loan	Long-term	INR6,390	IND BBB+/Negative	-	IND A/Negative	IND A+/Negative	IND A+/Negative

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
CP	Low
Fund based/non-fund based working capital limits	Low
Non-fund-based working capital limits	Low
Fund-based working capital limits	Low
Term loans	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators

Contact

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process